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TAGS: ELAB ETRD PGOV PBTS CVIS CA
SUBJECT: Canadian Truckers Squeezed By Higher Costs and Slowing Trade

Sensitive But Unclassified - protect accordingly.

¶1. (SBU) SUMMARY: Canadian truck transportation services employ close to 400,000 people and generate over C$60 billion in revenues annually. The Canadian trucking industry is being squeezed by slowing export volumes (due to the appreciation of the Canadian dollar and the slowing of the U.S. economy), the rising price of fuel, and increasing insurance premiums. Canadian truckers also complain that post-9/11 border security programs and a severe labor shortage are making their companies less profitable. We need to continue our efforts to effectively demonstrate and communicate the real value of the C-TPAT, FAST, and PAPS programs to the companies that have invested significant resources to participate in them. END SUMMARY.

Trucks are Vital Links in Canada-U.S. Trade

¶2. (U) Over 82% of Canada's exports go to the U.S., and trucks haul 70% of that trade (57% of exports, 80% of imports). 14 million trucks crossed the border in 2007, roughly one every 1.5 seconds, and more than two-thirds (68%) of those crossings were by Canadian-owned trucks.

¶3. (U) More than 40% of Ontario's GDP depends on trade and 90% of its exports are destined for the United States. At least 80% of the value of that Ontario-U.S. trade (75% exports, 83% imports) crosses the border by truck. Trucks transport about 60% of Ontario's trade in motor vehicles and parts, 80% of its trade in machinery and equipment, 35% in forest products, and 72% in petroleum products. Trucks haul more high value-added manufactured goods and finished products than other freight transportation modes. Since 1991, trans-border truck movements have been growing at 9% per year. The commercial trucking industry in Ontario employs over 200,000 people directly and is indirectly responsible for another 15,000 jobs in related businesses.

Export Volume Decreases

¶4. (U) Reduced export volumes (not necessarily reduced total value) cut profits for the Canadian trucking industry. In early 2008 Canadian Trucking Alliance (CTA) Vice President, Graham Cooper, complained to a federal Commons Standing Committee on Industry, Science, and Technology that Canada's total exports to the U.S. declined by 3.8% and imports by 1.9% from November 2006 to November ¶2007. However, U.S. Bureau of Transportation statistics show that Canada surface transportation trade (truck, rail, and pipeline) totaled US$511 billion in 2007, up 4.6% compared to 2006. The value of imports carried by truck was 0.4% higher in 2007 than 2006 while the value of exports carried by truck was 6.1% higher. The value of

goods transported by trucks may be up but the number of cross-border truck trips between Ontario and the U.S. fell for the third straight year in 2007 to 8,049,136, its lowest point since 1998, according to the Ontario Bridge and Tunnel Operator's Association (OBTOA).

Operating Costs Increase

¶5. (SBU) Diesel fuel represents the second largest component of the trucking industry's cost base, next to labor. The average retail price of diesel fuel in Canada has risen from 76 cents per liter in 2004 to $1.20 on March 10, 2008, severely cutting into industry profit margins. CTA VP Cooper told Parliament, "While motor carriers have been able to pass some of this increase on to their customers through fuel surcharges, current business conditions in the industry make this increasingly difficult to accomplish." Since the mid-1980s Canada's federal government has collected a 4 cent excise tax on the 16 billion liters consumed annually in Canada for road use. The CTA is lobbying the federal government to abolish the excise tax surcharge on diesel fuel, but prospects for this seem slim.

¶6. (U) Insurance premiums also have risen sharply since 2001, in part because fewer companies are offering truck insurance. Insurers have justified significant premium price hikes by citing increased environmental and counterterrorism concerns though trucking companies counter that they have made significant investments in security, training, and safety to protect their people and assets.

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Canadian Trucking Industry Facing Labor Shortage Crisis
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¶7. (U) Canadian Trucking Human Resources Council (CTHRC) studies identify a growing shortage of qualified commercial truck drivers across Canada. The studies indicate that Canadian fleets lose 22.1% of their drivers each year. In recent years, trucking companies have been unable to fill about 12% (about 12,000 drivers) of the industry's job openings. Almost half of the fleet operators that answered the 2006 CTHRC survey admitted they had idled equipment due to a shortage of personnel in the previous six months.

¶8. (U) The labor shortage that is plaguing the Canadian trucking industry is exacerbated by the aging of its workforce. According to Statistics Canada, in 2004, the average age of wage-earning truckers was 42; their self-employed counterparts were on average 45 years old. Over the past decade, some transport fleets have started actively recruiting immigrants to replace their aging truck drivers. The Statistics Canada 2001 census showed that about 33% of truck drivers had resided in Canada for less than 10 years in 2001, compared with 19% in 1991. It is not easy for many of these "new Canadians" to comply with the strict requirements of the post-9/11 U.S. border security programs (i.e. FAST).

¶9. (SBU) ConGen Toronto issued approximately 1,000 B1/B2 visas to such truck drivers from March 1, 2007 to March 1, 2008. India was the country of origin for nearly half the drivers, and a large proportion of these Indian drivers were Sikh. Toronto also issued a significant number of visas to Eastern European drivers, particularly immigrants from Romania, Ukraine, Poland, and Russia. In addition, Toronto issued visas to a number of drivers from Pakistan, Colombia, and China. We have observed that many of Ontario's immigrant truck drivers actually have advanced degrees from their home countries, but have been unable to secure the accreditation needed for them to work in their professions.

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Truckers Claim Border Security Programs Increase Costs
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¶10. (U) Canadian and U.S. truckers participate in several U.S. government "trusted shipper" programs that are designed to

facilitate and speed cross-border trade from well-known and trusted shippers while improving U.S. border security. CTA representatives claim that post-9/11 land transportation security programs are significantly increasing costs for the trucking industry.

¶11. (U) The Customs-Trade Partnership Against Terrorism (C-TPAT) is the largest government-private sector partnership to emerge after the 9/11 terrorist attacks on the U.S. C-TPAT builds cooperative relationships with the owners of the supply chain: importers, carriers, brokers, warehouse operators, and manufacturers. The program was launched in November 2001 with just seven companies, but now boasts 1,622 C-TPAT certified Canadian truck companies.

¶12. (U) C-TPAT is a fundamental pre-requisite for participation in the FAST (Free and Secure Trade) program for trusted drivers, carriers, and importers. U.S. Customs and Border Patrol (CBP) operates the program for truck companies transporting North American trade between the three NAFTA countries through land ports of entry. Participants in FAST have access to dedicated lanes at border crossings as well as less lengthy inspection clearance times at ports of entry. As of September 2007, more than 87,000 North American truck drivers are enrolled in the program. Truckers enrolled in the FAST program are supposed to be sped through crossings, however, Ken Oplinger, president of the Bellingham-Whatcom Chamber of Commerce in Washington state, complained last fall that 12% are facing secondary screenings.

¶13. (U) The Advanced Electronic Presentation of Cargo Information (e-manifest) requires trucks to provide manifest information at least one hour before they arrive at the U.S. border except for some very specific cargo release processes. Through the PAPS (Selectivity Pre-Arrival Processing System), U.S. CBP utilizes barcode technology to expedite the release of trusted commercial shipments. Importers or shippers electronically transmit entry summary data to CBP, directly or via customs brokers. Truckers note that customs brokers can face delays of one to two hours to process the invoice with CBP, and that many trucks must delay proceeding to the border until the drivers receive notice from the broker or truck dispatcher that CBP has received the invoice information and that the load is in compliance. In a statement released in November of 2007, OTA President David Bradley estimated that border delays are costing the Canadian trucking industry C$500 million to C$1 billion per year.

¶14. (U) The Public Health Security and Bio-Terrorism Preparedness and Response Act of 2002 (Bio-Terrorism Act) requires that the U.S. Food and Drug Administration (FDA) receive two hours prior notice for food imported or offered for import into the United States. In addition, in 2007, CBP began inspecting all food shipments entering

the U.S. from Canada and began charging every truck entering the U.S. a cost-recovery fee.

¶15. (U) Trucking companies note a number of increased operating costs, including the cost to obtain a FAST card, the cost of training drivers about border procedures, and bonuses to induce drivers to cross the border. Trucking companies have purchased new security systems such as closed circuit cameras, fencing, gates, lighting, and employee identification cards in order to become C-TPAT compliant and then FAST approved. Carriers have also invested in programming and hardware to comply with the PAPS program. Trucking companies complain that border security programs, particularly PAPS, also have raised administrative costs by increasing clerical workload, increasing the time needed to work with customs brokers, increasing the idle time for drivers, requiring companies to acquire a Standard Alpha Carrier Code (SCAC) (a unique two-to-four-letter code used to identify transportation companies), requiring companies to develop PAPS barcodes for their shipments, and requiring the purchase of additional office equipment to comply with the new programs.

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Canadian Trucking Companies Are Less Profitable
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¶16. (U) The stock prices of Canada's top publicly traded transportation companies reflect the challenges facing the Canadian trucking industry. The stock price of TransForce, one of Canada's foremost trucking firms, plummeted 65% between April 2006 (C$19.00) and early March 2008 (C$6.61). The stock value of Contrans, another publicly traded income fund, and one of Canada's largest trucking companies, hovered around C$12.00 in April 2006, but declined 25% to C$8.85 as of March 10, 2008.

¶17. (U) In contrast, the Canadian rail industry is profitable because rail is on average three or more times more fuel efficient than trucks, and demand is booming for heavier commodities which are generally shipped by rail rather than truck. In addition, we have heard that some companies have begun shipping more goods via rail and fewer by truck in recent years. The Canadian Pacific Railway's (CPR) stock value has increased 14% from April 2006 (C$60.00) to March 6, 2008 (C$68.63).

¶18. (SBU) COMMENT: We can do little but sympathize with these manifestations of economic reality, while noting that border infrastructure operators and the managers of U.S. ports of entry work hard to ensure that these voluntary programs facilitate trade while allowing CBP officers to more effectively target their inspection efforts to improve border security. We need to effectively demonstrate and communicate the real value of the C-TPAT, FAST, and PAPS programs to the companies that have invested significant resources to participate in them. In our dialogue with Canadian exporters and shippers, we will continue to urge them to offer specific suggestions about how we could improve these trusted shipper programs. END COMMENT.

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